

IBRC - Estimated Liquidation Outcome

REF #:	FIN 00653-18	AUTHOR:	David Tuohy
TO:	Minister	OWNER:	David Tuohy
STATUS:	Completed	REVIEWERS:	David Tuohy, Gary Hynds, Elizabeth Hughes
PURPOSE:	For Information	DECISION BY:	29/06/2018
DIVISION/OFFICE:	Shareholding Management Unit		

Final comment

Noted. Let's review again towards end of October. PD 18/07/18

Action required

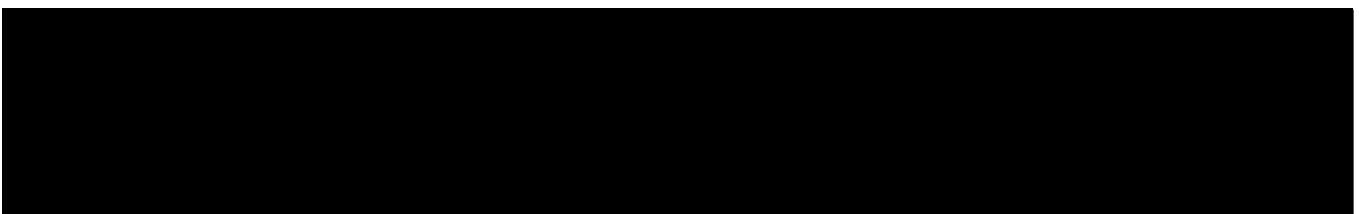
None - Note for information/discussion in relation to the most recent IBRC estimated liquidation outcome report which was received by the Department of Finance from the Special Liquidators of IBRC.

Executive summary

The Department of Finance recently received an updated report from the Special Liquidators of IBRC which forecasts the estimated outcome from the liquidation of IBRC.



There remains €1.7bn of unpaid unsecured creditors and other admitted claims. Based on the information contained in this report, admitted unsecured creditors are in line to recover 100% of their claims on the liquidation (a 50% dividend has already been paid to this cohort of creditors including the State).



It is important to note that these figures are provisional and do not take account of future admitted creditors, adverse litigation or costs of realisation. The Special Liquidators guidance at this time remains that the eventual unsecured creditor dividend will be in the range of 75%-100% of all eligible claims. We understand that this guidance is likely to be updated towards the end of the year.

Comments

Gary Hynds - 28/06/2018 15:21

as discussed

Gary Hynds - 06/07/2018 15:24

as discussed

Des Carville - 16/07/2018 22:19

As per email. Send it on once you've made the change please.

Gary Hynds - 17/07/2018 08:50

Approved by Des remotely

Helena Quane - 19/07/2018 12:08

Noted. Let's review again towards end of October. PD 18/07/18

Detailed information

Background

As you will be aware the liquidation of IBRC has been ongoing since February 2013. As part of the Department's on-going oversight of the liquidation of IBRC, the Special Liquidators are required to prepare a high level estimate of the likely outcome of the liquidation at regular intervals. The latest estimate was received by the Department in June and provides an estimated outcome based on the IBRC balance sheet as at end March 2018.

The Special Liquidators most recent public announcement in relation to the outcome of the liquidation was contained in the progress update report published in May. In that report the Special Liquidators reiterated their guidance that they intend to make a further dividend announcement before the end of this year with the continued expectation that the eventual unsecured creditor dividend will be in the range of 75%-100% of all eligible claims.

As you will be aware, the sale of IBRC assets over the period 2013 - 2017 has been particularly successful with the proceeds realised far exceeding what was estimated at the time of the liquidation of the bank. This has resulted in the contingent liability for the

State in connection with the liquidation being extinguished and has also allowed the State to recoup 50% (c.€663m) of the funds owed to it to date. Furthermore, the Special Liquidators are making considerable progress addressing many of the residual issues in connection with the liquidation and concluding many of the legal cases which IBRC are a party to successfully. Notwithstanding that a number of key issues remain, the progress achieved has allowed the Special Liquidators to gain greater clarity in relation to the likely outcome of the liquidation at this time and this is clearly illustrated in the report received.

Having reviewed the latest report it now appears clear to the Department that sufficient funds will be realised from the liquidation of IBRC to enable the repayment of 100% of unsecured senior creditors in the liquidation with a surplus potentially available for distribution after those debts have been met. Based on this report we expect that absent any other events that the Special Liquidators would likely make an announcement towards the end of the year when they provide updated guidance in relation to the dividend payable to creditors.

Estimated Liquidation Outcome Report

As discussed above, the Department of Finance recently received an updated report from the Special Liquidators which forecasts the estimated outcome of the liquidation of IBRC based on the balance sheet as at end March 2018. It is important to flag that the report is a high level indicative estimate which makes a number of key assumptions in relation to the validity of claims submitted, legal and other matters. The estimated outcome also excludes future trading and liquidation and other realisation costs that will impact the actual outcome achieved. It is clear that the Special Liquidators are taking a conservative approach in terms of formal guidance to the market in relation to dividends payable as changes to the assumptions in these estimate could have a material impact on the actual outcome realised. A more refined estimated outcome will only be achieved as the final assets are sold, claims are finalised and outstanding litigation is resolved.

A summary of the estimated outcome is set out below:

As set out above the Special Liquidators now estimate that all unsecured creditors are in line to receive 100% of amounts owing to them

For context, the first liquidation update report was received in September 2013, based on realisable asset values as at end-July 2013, showed a net deficit for unsecured creditors and other claims of (€204.5m) which meant, based on the forecasts from the SLs at that time, none of the unsecured creditors were in line to receive any payment from their claims with the State potentially liable for this shortfall.

The latest report now indicates that not only has the shortfall estimated in July 2013 not materialised but rather the State and all other unsecured creditors are now in line to recoup 100% of all amounts owing to them in full. It now also appears likely that some net

surplus will also be available to meet other remaining creditors of the bank [REDACTED]

The priority for the distribution of assets under the Companies Act's is generally:

1. Costs and expenses of the ongoing liquidation;
2. Preferential creditors, including certain taxes and employee and pension claims arising prior to the date of liquidation;
3. Amounts owing to NAMA under the Facility Deed acquired from the Central Bank which were secured by a floating charge over the bank's assets;
4. Unsecured creditors, including:
 - Debts owing to the Minister/NTMA/CBI under ELG and the Deposit Guarantee Scheme
 - Unguaranteed debt/depositors
 - Other trade creditors, suppliers etc.
5. Subordinated creditors;
6. Interest on unsecured and subordinated creditor claims from the date of liquidation;
7. Equity holders of the company - i.e. the Minister.

As you can see from the waterfall above that once all unsecured creditors are repaid then surplus capital is due to be used by the Special Liquidators to pay dividends to admitted claims from subordinated creditors of the liquidation.

Unsecured creditors

The Special Liquidators have already paid a 50% dividend in respect of all admitted claims by unsecured creditors. There remains €1.7bn of unpaid unsecured creditors and other claims of which €663m relates to claims submitted by the State. Based on the information contained in the report received, admitted unsecured creditors are in line to recover 100% of their claims on the liquidation with the likelihood that the Special Liquidators will

announce a further dividend payment at the end of this year (in the range of 15% - 20%). However, it is important to note that the ultimate level of dividend paid to each creditor will only be determined by the Special Liquidators when they are satisfied that sufficient funds are realised to meet the claims in full.

Subordinated liabilities

As you can see from the table above, the Special Liquidators have estimated a net surplus before subordinated liabilities of [REDACTED] which absent any other events would be used to pay the next cohort of creditors, i.e. the subordinated debt holders. Based on the information available to the Special Liquidators which is outlined in the above table, it is expected that the subordinated debt holders may receive a significant distribution from the liquidation. While the estimated liquidation outcome report suggests that [REDACTED] will be available to distributed this does not factor in cost of recovery from the remaining assets or other unsecured claims that may be admitted to the liquidation. Nonetheless it is clear that there is likely to be a material distribution to this class of creditor.

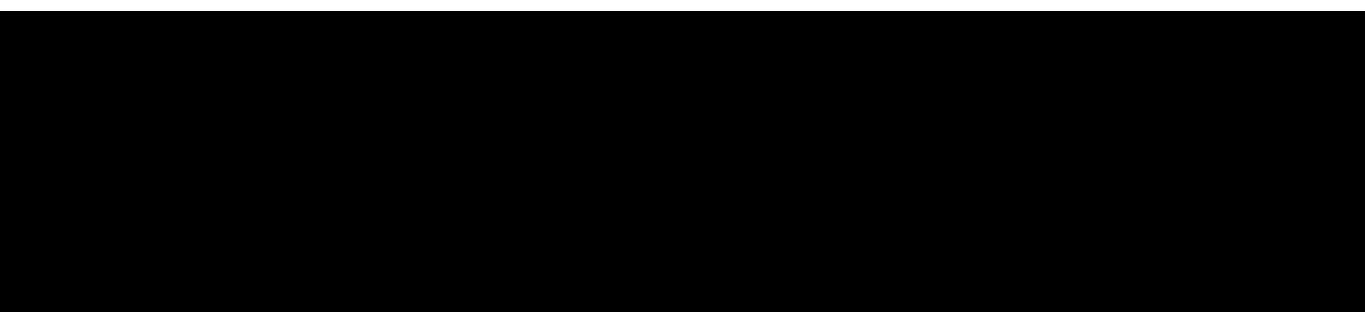
The table below provides a breakdown of the remaining subordinated debt in IBRC that is recorded as outstanding and owing by the bank as at the date of its liquidation:

NOTE	DESCRIPTION	VALUE AT 6 FEB 2013 €M (PER ACCOUNTS)
A	€750m Floating Rate Subordinated Notes 2014	18
B	US\$ 165m Subordinated Notes - Series A 2015	122
C	US\$ 35m Subordinated Notes - Series B 2017	26
D	€500m Callable Floating Rate Subordinated Notes 2016	41
E	€750m Callable Floating Rate Subordinated Notes 2017	60
	TOTAL	267

As you may recall, extensive liability management exercises (LME's) were undertaken across the banking system in the period between 2008 and 2011 in order to wipe out remaining subordinated debt in IBRC and other banks. These exercises were extremely successful and resulted in €15.5bn of capital gains for IBRC significantly reducing the cost of the bail out of the bank to the State. However, a number of events connected with these LME's has resulted in an amount of IBRC's outstanding subordinated debt remaining on the books of the bank on the date of liquidation.

In the case of the US denominated notes (B&C in the table above), the owners of these notes did not participate in the LME exercise undertaken by the Bank and as the notes were governed by US law there was no option open to the State to force the participation of these holders in the LME. As you may be aware, the Credit Institutions Stabilisation Act was introduced in 2011 and provided for a Subordinated Liabilities Order to assist the success of these exercises however this Act did not passport into the United States. While settlement discussions were held with the owners of these notes in 2011/2012 no agreement had been reached by the time of the liquidation.

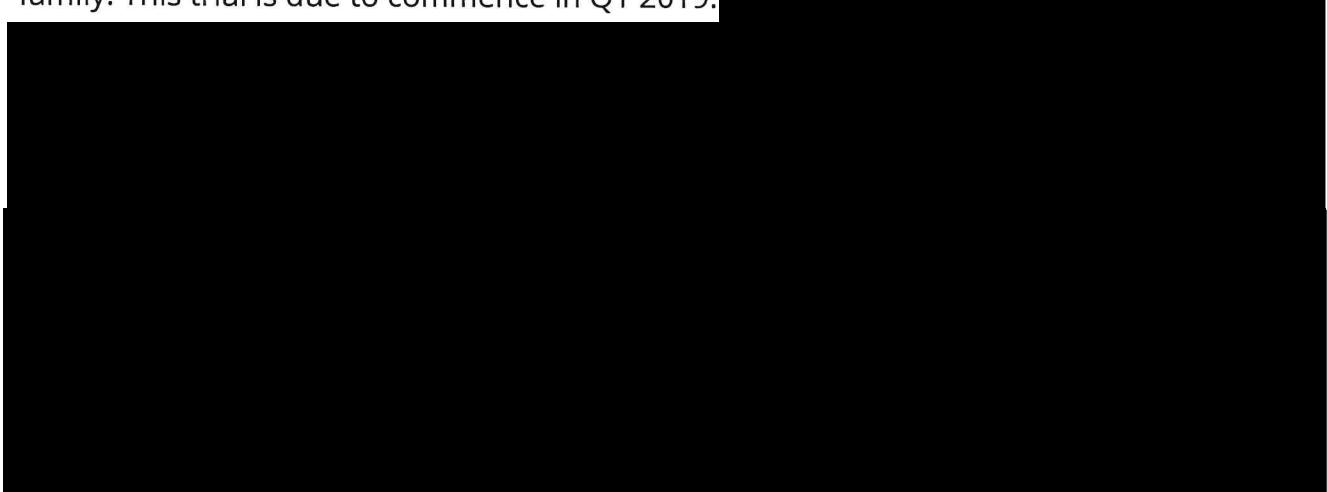
The other remaining debt (A, D & E above) was actually written down as part of an LME exercise in 2010. Following a legal challenge in the UK the court found that the mechanism employed to influence participation in the LME was too aggressive and IBRC was directed to re-instate the notes in 2012. Again these subordinated notes remained in place at the time of liquidation of IBRC.

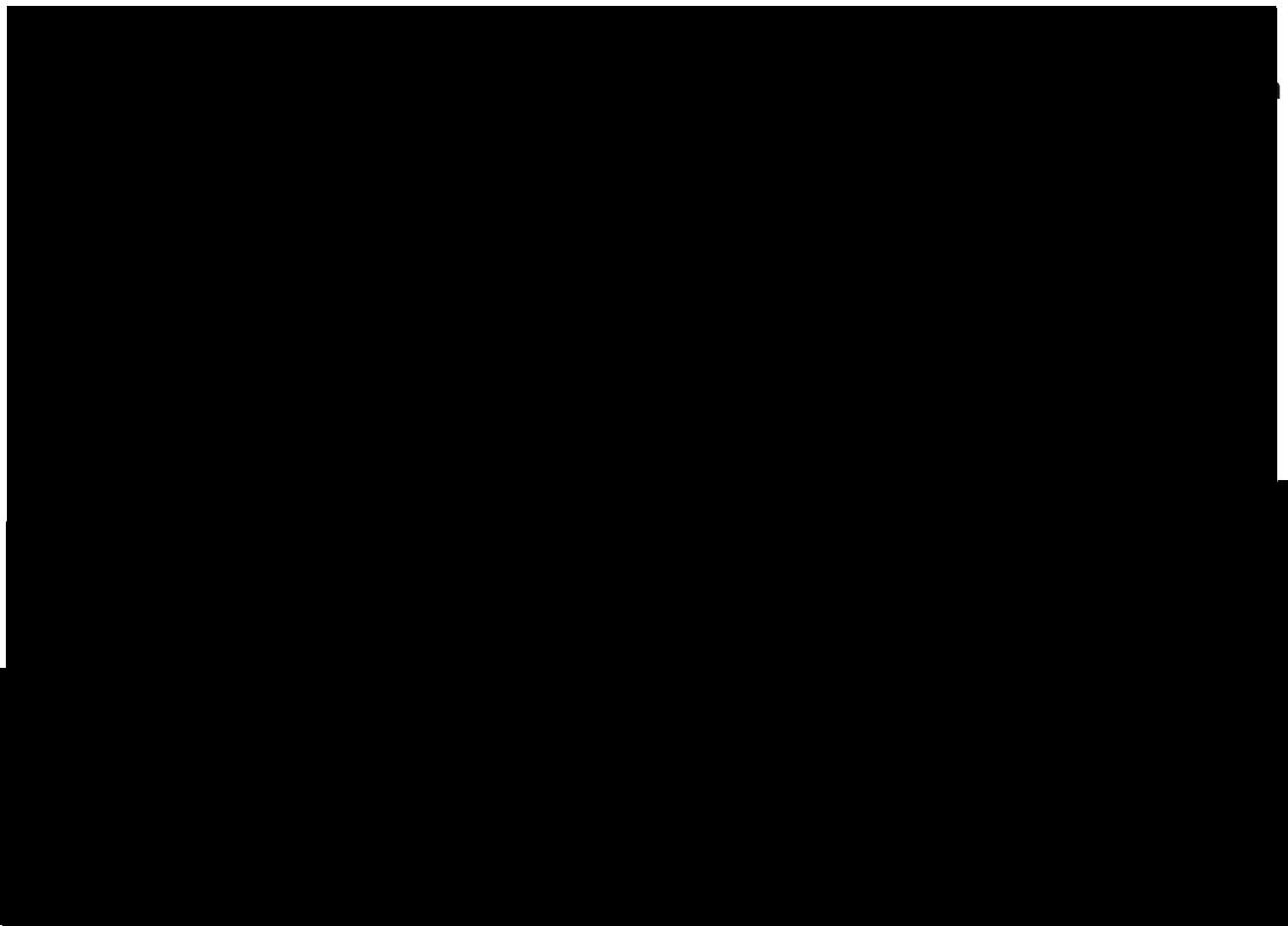


The Special Liquidators have also informed us that remains some active, if limited, trading of the outstanding subordinated debt. As these instruments are traded, SFAD are considering whether we need to open an insider list to adhere to the Market Abuse rules.

In any event, the contents of the submission should be regarded as confidential, price sensitive information.

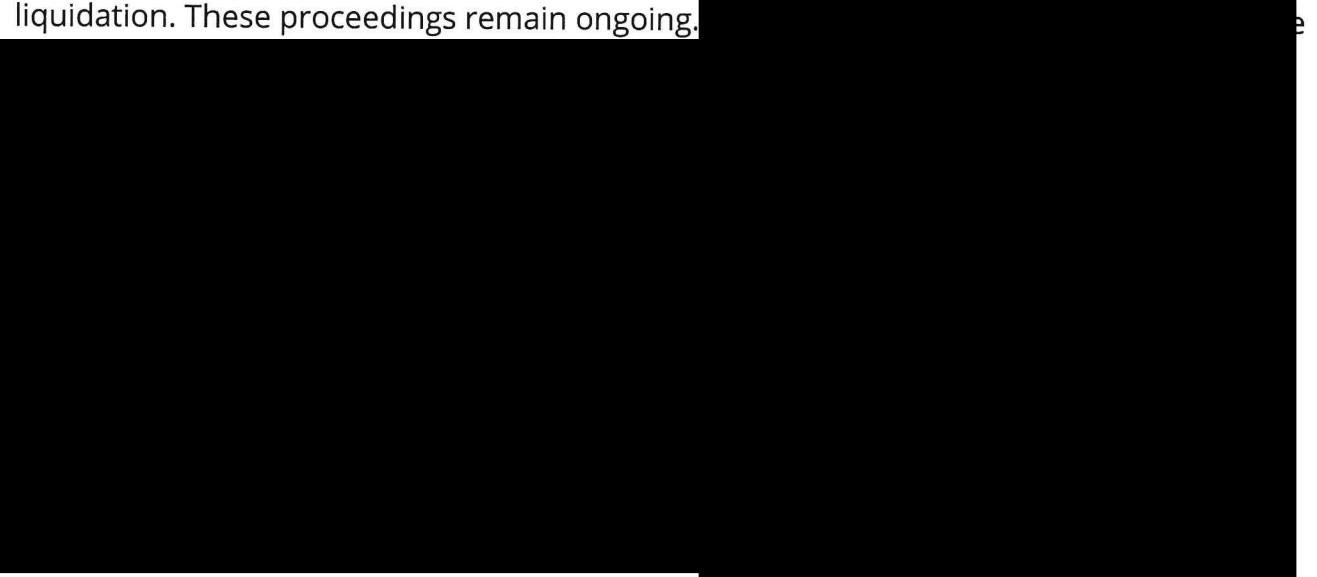
The potential payment to sub-debt holders may not happen for some time however, given that the Special Liquidators need to be sure they have funds remaining to meet any negative result from legal claims, including the substantial litigation with the Quinn family. This trial is due to commence in Q1 2019.





David Hall Proceedings

As you are aware, David Hall has issued proceedings against the Minister for Finance regarding a number of issues relating to IBRC including the costs and oversight of the liquidation. These proceedings remain ongoing.



Related submissions

There are no related submissions.

User details

INVOLVED:	David Tuohy Gary Hynds Des Carville Sub_FIN Sec Gens Office Derek Moran Sub_FIN Ministers Office Minister Donohoe	READ RECEIPT:	David Tuohy Gary Hynds Des Carville Elizabeth Hughes Helena Quane Deborah Sweeney Ed Brophy Mary Ryan Klare Havelin Rosemary Kearney
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Action log

ACTION	DESCRIPTION	USER	DATE
Create	Submission FIN-00653-18 to Minister created.	David Tuohy	27/06/2018 15:17
Submit for review	Submission sent for review to Gary Hynds.	David Tuohy	27/06/2018 16:33
Revert	Submission reverted to David Tuohy by Gary Hynds.	Gary Hynds	28/06/2018 15:21
Submit for review	Submission sent for review to Gary Hynds.	David Tuohy	05/07/2018 15:54
Revert	Submission reverted to David Tuohy by Gary Hynds.	Gary Hynds	06/07/2018 15:24
Submit for review	Submission FIN-00653-18 "IBRC - Estimated Liquidation O..." sent for review to Gary Hynds.	David Tuohy	10/07/2018 17:07
Submit for review	Submission FIN-00653-18 "IBRC - Estimated Liquidation O..." sent for review to Des Carville.	Gary Hynds	12/07/2018 12:29
Submission sent	Submission sent by email to Des Carville.	Des Carville	13/07/2018 13:22
Take ownership	Submission ownership taken by David Tuohy.	David Tuohy	16/07/2018 10:18

Submit for review	Submission FIN-00653-18 "IBRC - Estimated Liquidation O..." sent for review to Gary Hynds.	David Tuohy	16/07/2018 16:35
Submit for review	Submission FIN-00653-18 "IBRC - Estimated Liquidation O..." sent for review to Des Carville.	Gary Hynds	16/07/2018 17:15
Submission sent	Submission sent by email to Des Carville.	Des Carville	16/07/2018 17:48
Revert	Submission reverted to Gary Hynds by Des Carville.	Des Carville	16/07/2018 22:19
Submit for review	Submission FIN-00653-18 "IBRC - Estimated Liquidation O..." sent for review to Secretary General.	Gary Hynds	17/07/2018 08:50
Submission sent	Submission sent by email to Antoine MacDonncha, Emily King.	Gary Hynds	17/07/2018 08:53
Submit for review	Submission FIN-00653-18 "IBRC - Estimated Liquidation O..." sent for review to Minister.	Elizabeth Hughes	17/07/2018 10:47
Complete	Submission completed by Helena Quane.	Helena Quane	19/07/2018 12:08
Submission sent	Submission sent by email to David Tuohy.	David Tuohy	29/11/2018 16:05

Minister Donohoe meeting with Special Liquidators of IBRC

REF #:	FIN 01206-18	AUTHOR:	David Tuohy
TO:	Minister	OWNER:	David Tuohy
STATUS:	Completed	REVIEWERS:	Gary Hynds, Des Carville, Margaret Fitzgerald
PURPOSE:	For Information	DECISION BY:	11/11/2018
DIVISION/OFFICE:	Shareholding Management Unit		

Final comment

Printed by Klare Havelin for Minister's Folder for 12/11/2018

Action required

Agenda and briefing attached for Minister Donohoe's meeting with the Special Liquidators of IBRC on Monday 12th November 2018.

Executive summary

Minister Donohoe is scheduled to meet Kieran Wallace and Eamonn Richardson, Joint Special Liquidators of IBRC on Monday 12th November 2018 at 3pm. Gary Hynds and David Tuohy will be attending the meeting from the Department of Finance.

Minister Donohoe last met with the Special Liquidators of IBRC in February 2018 and it was agreed at that meeting to meet with them bi-annually going forward.

An agenda, a briefing and the latest progress update report from the liquidation of IBRC are attached.

Comments

Pamela Roche - 09/11/2018 12:57

Printed by Klare Havelin for Minister's Folder for 12/11/2018

Detailed information

Minister Donohoe is scheduled to meet Kieran Wallace and Eamonn Richardson, Joint Special Liquidators of IBRC on Monday 12th November 2018 at 3pm. Gary Hynds and David Tuohy will be attending the meeting from the Department of Finance.

Minister Donohoe last met with the Special Liquidators of IBRC in February 2018 and it was agreed at that meeting to meet with them bi-annually going forward.

An agenda, a briefing and the latest progress update report from the liquidation of IBRC are attached.

Related submissions

There are no related submissions.

User details

INVOLVED:	David Tuohy Gary Hynds Des Carville Sub_FIN Sec Gens Office Derek Moran Sub_FIN Ministers Office Minister Donohoe	READ RECEIPT:	David Tuohy Gary Hynds Des Carville Margaret Fitzgerald Klare Havelin Elizabeth Hughes Pamela Roche Deborah Sweeney Helena Quane Ed Brophy
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Action log

ACTION	DESCRIPTION	USER	DATE
Create	Submission FIN 01206-18 to Minister created.	David Tuohy	06/11/2018 16:16
Submit for review	Submission sent for review to Gary Hynds.	David Tuohy	08/11/2018 14:59
Submit for review	Submission sent for review to Des Carville.	Gary Hynds	08/11/2018 16:29
Submit for review	Submission sent for review to Secretary General.	Des Carville	09/11/2018 10:17
Submit for review	Submission sent for review to Minister.	Margaret Fitzgerald	09/11/2018 10:59
Complete	Submission completed by Pamela Roche.	Pamela Roche	09/11/2018 12:57



Minister Donohoe meeting with Special Liquidators of IBRC

12th November 2018

Agenda

1. Update on key points of the liquidation
2. Interim dividend
3. Expected liquidation outcome and estimated timeframe for completion of the liquidation
4. Update on key legal cases
5. Costs and fees
6. Tasks remaining to be completed
7. AOB



Minister Donohoe meeting with Special Liquidators of IBRC

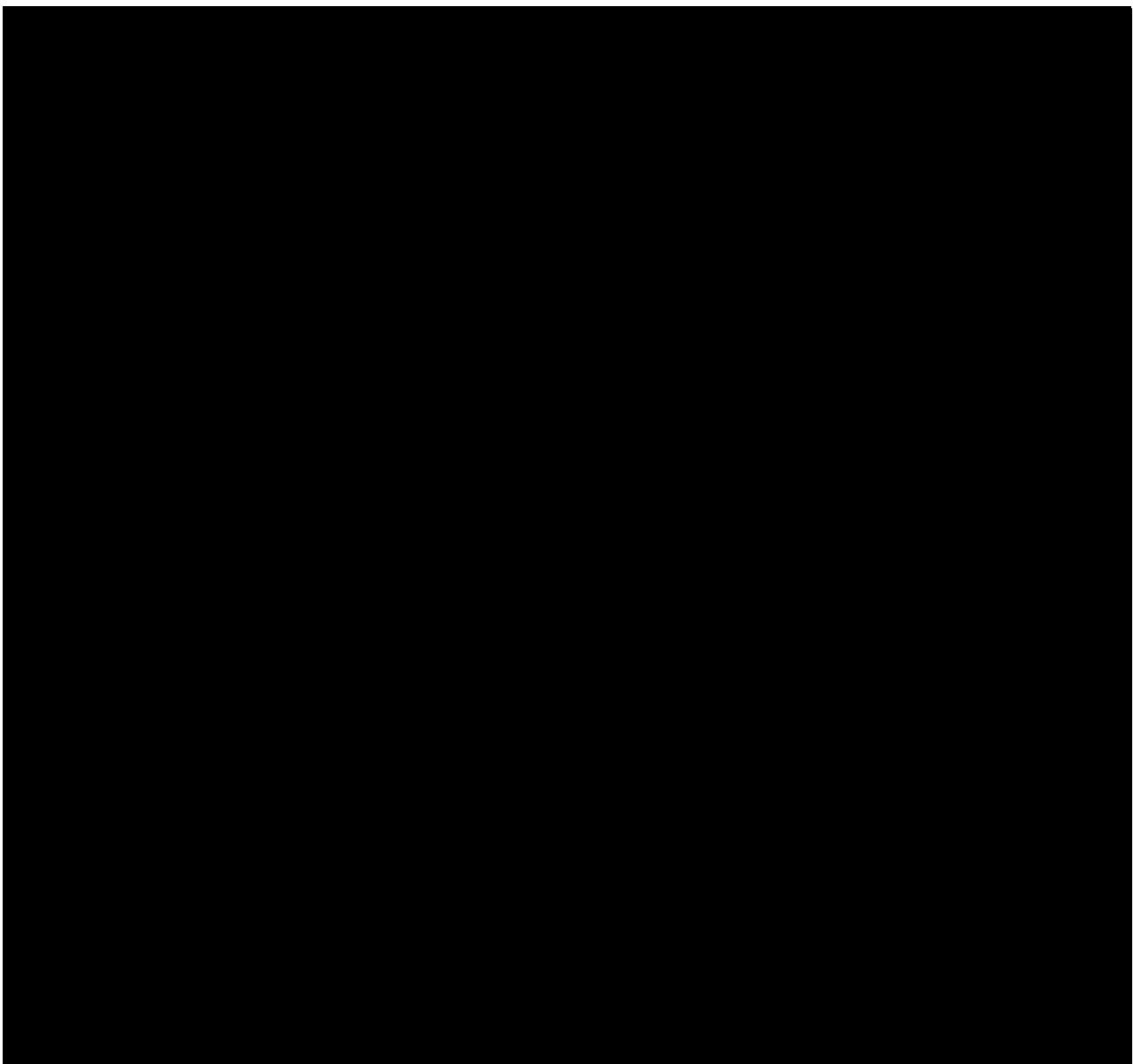
12th November 2018

Briefing Note

Special Liquidation

Estimated Liquidation Outcome:

- The Department of Finance recently received an updated report from the Special Liquidators of IBRC which forecasts the estimated outcome from the liquidation of IBRC.
- [REDACTED]
- There remains €1.5bn of unpaid unsecured creditors and other admitted claims of which the State represents 41%. Based on the information contained in this report, admitted unsecured creditors are in line to recover 100% of their claims on the liquidation.
- [REDACTED]
- The SLs have forecasted that all of the subordinated debt will get paid [REDACTED]
- [REDACTED]



Interim Dividend:

- The SLs have paid two interim dividends of 25% each to all admitted unsecured creditors. The first interim dividend was paid in December 2016 and the second interim dividend was paid in December 2017. As part of these distributions the State, as the largest creditor to the liquidation, has received €560m of its €1.12bn of admitted claims.
- The SLs expect to announce a further interim dividend payment of 20-25% before end-2018.
- Publicly, the SLs have maintained that cumulative unsecured creditor distributions will be in the range of 75% - 100% of all eligible claims. However, it will become clearer following the next announcement of the interim dividend that 100% of all eligible unsecured claims will be paid. Such an announcement will give rise to speculation



around how much funding will be available for subordinated bondholders and the State as holders of any residual equity in IBRC.

Progress Update Reports:

- The SLs have published five comprehensive reports on the progress of the liquidation since 2013 with the most recent report being published in May 2018 which covers the period to 31st December 2017. These regular reports were designed to give a detailed overview of the work completed by the Special Liquidators, the work which is on-going by them and also the tasks which remain to be completed in the liquidation. While there is no statutory requirement for this information to be published, the Department of Finance recommended the preparation and publication of these reports in order to give timely and detailed insight into the progress of the liquidation along with full visibility of the cost of the activities being undertaken.
- A copy of the most recent progress update report is enclosed.
- A sixth progress update report will be published in H1 2019.

Loan Sales:

- Since February 2013, loans with a par value of €21.7bn have been prepared, brought to the market and sold. The success of the loan sales processes eliminated the need to transfer any assets to NAMA as part of this process; removed any residual risk of further calls on the exchequer and illustrated the strong confidence of investors in the Irish economy and its future prospects with 355 parties across 13 countries interested in the various portfolios.
- Among other assets, loans with a par value of €3.4bn remain which the SLs continue to manage. These are loan assets which were not included in the original sales processes as they are connected to ongoing litigation.

Financial Position:

- The SL's have raised cash of c. €17bn in the period since their appointment to end-February 2018. These funds have been used to repay secured and preferred creditors including NARL (€12.9bn). Provisional payments to unsecured creditors of €712m have also been paid to date.
- IBRC in SL currently holds a cash balance of c. €1.6bn, which is held on deposit across various financial institutions, which will be available for distribution to creditors.



Cost of Liquidation:

- The costs associated with the special liquidation of IBRC is a topic in which we invest considerable efforts and oversight to ensure that the taxpayer is getting value for money as the absolute quantum of fees are large.
- Fees totalling €254m have been incurred across all service providers to the end of August 2018. Of this KPMG have received c.63% or €160m, A&L Goodbody (Irish Counsel) were the second highest with €39.6m of fees and Linklaters (UK Counsel) third at €20.5m. In the case of all three of these providers rates have been set by reference to NAMA rates and rebates totalling €8m were also negotiated by the Department.
- Excluding the cost of regulatory and compliance activity the overall KPMG liquidation costs have reduced significantly in recent years.



- The Special Liquidators have estimated that the liquidation will be substantially completed by 2022 and that the total liquidation fees are estimated to come in at between €300 - €315m in total. These forecasts assume no further material regulatory reviews or investigations.

Creditors:

- The SLs have adjudicated on a large number of claims, however, they continue to work with creditors, including some local authorities, on outstanding claims in order to finalise this process.
- Subordinated bondholders have submitted claims in the region of €267m as part of this process. For the payment of proceeds from the liquidation, unsecured creditors will rank in priority to the holders of subordinated debt



- A summary of the quantum of unsecured creditor claims is as follows:
 - Total claims: 3,139
 - How many agreed: 1,239
 - How many in progress: 707
 - How many rejected: 1,076

Anglo Irish Bank Assessor:

- David Tynan of PwC has recently been appointed as assessor pursuant to the Anglo Irish Bank Corporation Act 2009. While the SLs do not directly have a role in this process, they will be expected to engage and cooperate with the assessor as holders and guardians of historic Anglo Irish Bank information.

Tasks Remaining:

There remain a number of key tasks in the liquidation of IBRC including:

- the on-going management of c.136 legal cases to which IBRC in SL remains party;
- the realisation of all remaining assets;
- the resolution of all creditor claims;
- the distribution of liquidation proceeds to creditors; and
- the completion of the ongoing interest overcharge remediation project.



Minister for Finance / Special Liquidator Update Meeting Minutes

12th November 2018 @ 3pm

In attendance: Minister Donohoe, Niamh Callaghan, Gary Hynds, David Tuohy, Kieran Wallace, Eamonn Richardson

Main points

The SLs provided the Minister with a presentation at the outset of the meeting which they subsequently talked through.

The SLs began by giving the Minister an update on the key points of the liquidation:

- ER highlighted that IBRC had cash resources of c. €1.6bn on deposit across various institutions and the management of this in terms of generating any return is a continuing challenge.
- In relation to the creditor adjudication process, ER advised that out of the c. 3100 claims received, c. 2500 of these have been adjudicated on with c. 600 continuing to go through the adjudication process. The majority of the claims that are outstanding relate to interest overcharging and local authority claims.
- KW advised that they continue to manage a loan book of c. €3.4bn of which the majority relates to loans connected to the Quinn family.

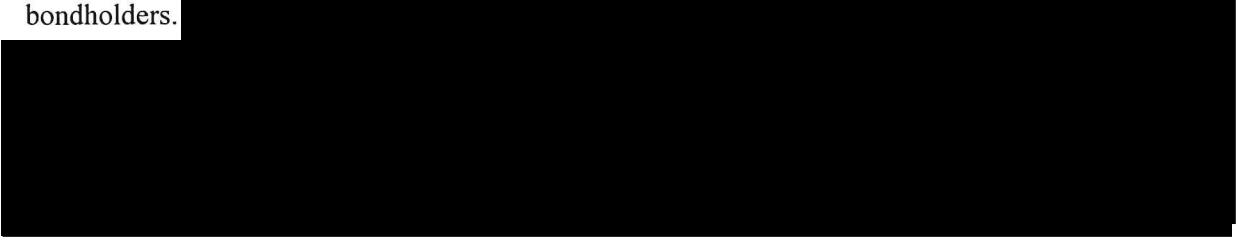
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- KW highlighted the progress they are making with outstanding legal cases with the number of cases outstanding having reduced from 175 at the beginning of 2017 to 118 currently and they expect this figure to reduce below 100 cases within the next 3 months.

The Minister queried what impact the GDPR regulations had on the SLs and KW advised that the impact was quite minimal with only a handful of extra data access requests received.

In relation to the interest overcharging project, the Minister queried as to what stage this was at. ER explained that the majority of work on this project is completed but that they are waiting on a court decision which is preventing them to issue communications to borrowers until a decision is made and that this is expected in December.

KW discussed the estimated liquidation outcome with the Minister and explained to him that based on the latest projections he is confident that unsecured creditors will get paid in full as will subordinated bondholders.



KW also advised that they are likely to announce a further dividend payment of at least 25% to admitted unsecured creditors before the end of the year or in Q1 2019. KW will keep the SFAD team informed of this process.

KW gave the Minister an update on the main legal cases currently outstanding.:.

In relation to costs and fees of the liquidation, KW advised the Minister that they are constantly monitored to ensure that best value is attained. The Minister asked that this remains the case for the remainder of the liquidation. KW advised that the large majority of the remaining fees will be associated with dealing with the outstanding litigation. GH asked how much has been spent complying with directions from the IBRC COI which ER advised was in the region of €3.6m so far.

Concluding the update, KW advised that the timing to complete the liquidation will be largely dependent on the outcome of the Quinn proceedings but once these are finalised they will be in a better position to determine when their work will be completed.

The Minister thanked the SLs for their continuing work and again reiterated that he is relying on them to achieve best value on fees and costs for the remainder of the liquidation but that he is very cognisant of the remaining legal proceedings and other tasks which have to be managed before the liquidation can complete.